

FLATTENING YIELD CURVE AMIDST RAPID INFLOWS: THE MALAYSIAN EXPERIENCE

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Abstract:

Movements in the yield curve reflect the interplay of monetary policy actions, various macroeconomic conditions as well as the demand and supply conditions in the bond market. We examined the observed periods of flattening of the Malaysian yield curve, paying additional attention to episodes that took place following the active efforts to develop the bond market beginning in the early 2000s as well as the financial liberalisation measures implemented after the Asian Financial Crisis. We also assessed the possible factors that contributed to the compression in yields. The various impact of increased foreign participation in the domestic bond market were also studied, both qualitatively and quantitatively. Specifically, it was found that foreign participation in the ringgit bond market is statistically significant in determining long-term sovereign yields. Finally, policy implications arising from the flattening yield curve phenomenon in Malaysia were also analysed.

JEL Classification: E44, E58, F21, G15, G18

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